



**Director of
Central
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FRANCE: Mitterrand Defends His Policies

President Mitterrand is responding to growing domestic criticism.

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Mitterrand on Wednesday addressed the nation for the first time since cabinet changes and tougher austerity measures were announced in March. His personal popularity ratings and those of most members of his cabinet have been declining steadily. The government also has been challenged by demonstrations, some of them violent, that have contributed to the impression that public order is breaking down.

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Comment: Since the Williamsburg Summit, the government has come under fire from the Communists and leftwing Socialists for its "conservative" approach to economic policy and for its close cooperation with the Alliance. Some of this criticism appears directed at Mitterrand personally. This is a disquieting development for him because he has thus far been shielded from attack.

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Mitterrand is balancing forceful statements about the need to uphold the authority of the state and to carry out his austerity program with more detached observations about the inevitability of demonstrations and of political conflict in a democracy. In response to his leftist critics, Mitterrand is stressing the continuity of his position on INF while reminding them of his own reservations about the Summit process.

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The President wants to demonstrate that he still has firm control over public policy. He probably also hopes the sense of impending crisis can be allayed by placing France's problems in a long-range perspective.

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Mitterrand's detached approach is not likely to cool tempers for long because government policies will continue to affect the economic and social interests of those who are taking to the streets. The Communists will want to maintain their distance from policies they strongly oppose, and leftwingers in his own party are likely to intensify their criticism as a party congress slated for October comes nearer.

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GUATEMALA: Increased Guerrilla Activity

The insurgents are gradually increasing the frequency of their ambushes and terrorist attacks, but they are unlikely to make substantial gains soon. [redacted]

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During the past two months the guerrillas have ambushed several lightly defended military convoys. [redacted]

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The insurgents have used antipersonnel mines in three attacks on police and Army units in the capital. The Guatemalan Communist Party has claimed responsibility for the murder of three prominent businessmen in Guatemala City, while a fourth kidnap victim was released for ransom. [redacted]

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Comment: The Army has generally maintained the tactical initiative, particularly in operations against insurgent support bases. The US Embassy reports, for example, that three guerrilla safehouses were recently dismantled by security forces in Guatemala City. The Army has announced that 1,410 people accepted the government's latest amnesty offer, which was effective from late March until the end of May. [redacted]

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The insurgents apparently have been able to take advantage of a temporary lull in military activity created by the current reorganization in the Army. They are likely to continue to increase hit-and-run ambushes, economic sabotage, and urban terrorism in an effort to gain the momentum before the reorganization is completed later this year. Nevertheless, their lack of unity and loss of some internal support networks probably will preclude any large-scale operations in the near term. [redacted]

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USSR: Higher Priority for Consumer Sector

The leadership in recent months has expressed increased support for the consumer, perhaps out of concern for the low morale that has contributed to reduced growth in labor productivity. [redacted]

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Moscow has announced several resolutions calling for more and higher quality consumer goods, housing construction, and consumer services. According to *Pravda*, the target for growth this year in light industry output has been raised from 2.7 percent to 5.5 percent. [redacted]

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In addition, two party Central Committee departments have been reorganized to improve supervision in the agricultural, food processing, light industry, and other consumer areas. General Secretary Andropov's strong public endorsement of the national Food Program is another indication of his desire to improve consumer welfare. [redacted]

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Comment: Although these actions strengthen the apparent continuity between Brezhnev's and Andropov's policies, it is not yet clear to what extent they will be backed up by increasing the investment available for consumer goods production. A substantial reallocation of resources is unlikely in the near term. [redacted]

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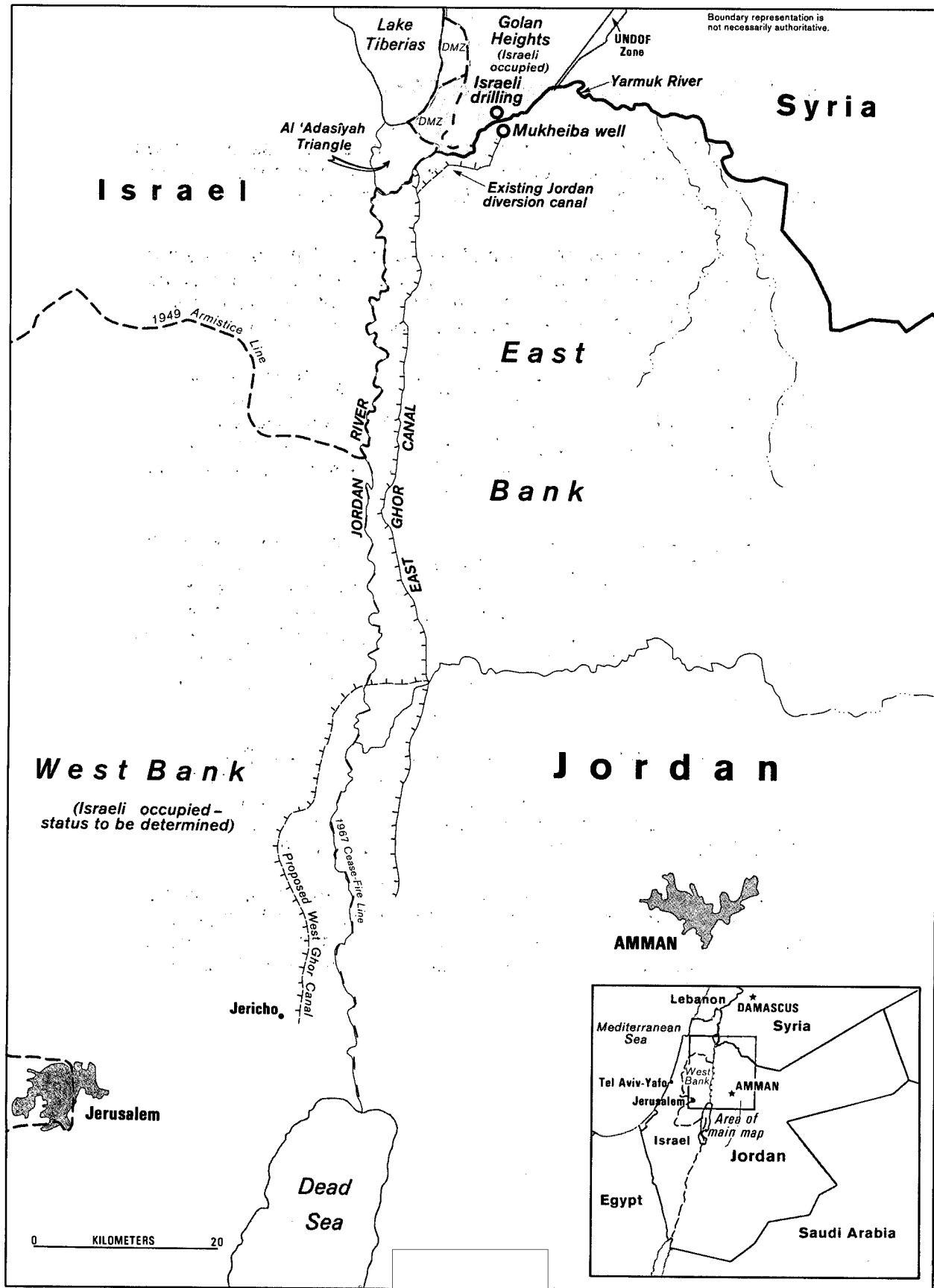
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ISRAEL-JORDAN: Dispute Over Water Use

Meetings between Israeli and Jordanian water authorities have failed to resolve water-use problems along the Yarmuk River, reemphasizing that serious trouble could develop if the disagreements continue. [redacted]

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Both Israel and Jordan have privately expressed concern about the other's plans for increasing its use of water from the Yarmuk River basin. Jordan plans to begin construction in September of additional diversion inlets from the Yarmuk River to the East Ghor Canal in order to expand irrigation on the East Bank. The Israeli Government says it will act to halt any Jordanian construction that is undertaken without its prior agreement. [redacted]

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Tel Aviv does not doubt Jordan's willingness to continue providing Yarmuk River water for use in the Al Adasiyah Triangle. It maintains, however, that unilateral regulation of the river flow by Jordan would violate Israel's riparian rights. [redacted]

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Jordan is deeply concerned that Israel is drilling several wells on the north side of the Yarmuk. Amman claims that the wells are in the same water source formation that feeds Jordan's important Mukheiba well and that any Israeli attempts to get water from this aquifer for use in the occupied Golan Heights would violate international law. Israeli authorities say they will accumulate test data from the wells to determine the water's origin, but they will not discuss any plans for its use. [redacted]

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Comment: These two issues underscore Jordan's current inability to prevent Israel from using a larger share of the Yarmuk basin's water. Unless agreement is reached on Jordan's diversion plans, Amman will be likely to delay construction, realizing that Israel would take action to stop the work. [redacted]

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Jordan probably will be able to meet its minimum requirements this summer because of the heavy rains last winter, but in the longer run it needs to regulate the flow of the Yarmuk River to provide water for irrigation and urban uses. Israel also has an increasing need for water, but benefits from the lack of regulation of the river's flow because any water not used by Jordan enters Israeli territory.

[redacted]

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OAU-LIBYA: Setback for Qadhafi

Libyan leader Qadhafi will see his failure to secure the chairmanship of the OAU as a personal insult and as a severe blow to his aspirations for international prestige. OAU members elected Ethiopian leader Mengistu as the organization's chairman after a decision by the Polisario Front to withdraw removed the major obstacle to convening a summit. There are no indications as to how the Polisario membership issue will be resolved in the future.

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Comment: Qadhafi probably is angry with Mengistu's refusal to support Libya on the seating of the Polisario, but is unlikely to abandon his cooperation with Ethiopia in joint efforts to oust pro-US regimes in Sudan and Somalia. Other African leaders, particularly Chadian President Habre, probably anticipate increased Libyan subversive activity and will seek additional security assistance from the West. Chairmanship of the OAU may prompt Mengistu to moderate his public posture toward the West, but not to the extent of endangering his alliance with the USSR.

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USSR-CHINA: Possible Opening of Consulates

The USSR and China have "basically agreed" to open consulates shortly in Shanghai and Leningrad, according to a Japanese news service quoting "informed sources" close to the government. A Japanese Government spokesman says he has no definite word on the alleged decision. [redacted]

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Comment: Neither the USSR nor China has hinted that it is considering such a move, which would be a more significant step than the trade and sports competition agreements reached within the past year. If consulates are to be opened, Leningrad and Shanghai would be natural choices. They are major centers of commerce and higher learning and would need diplomatic representation as bilateral contacts expand. They are distant from the Sino-Soviet border, moreover, and probably would be much more acceptable to the host governments than cities close to the border. [redacted]

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JAPAN: Increasing Support for Nakasone

Prime Minister Nakasone's popularity continues to rise. A nationwide poll taken after campaigning began on 3 June for Upper House elections later this month shows his personal popularity has increased 6 percentage points since March. In the same poll, 46 percent of all voters claimed to support the Liberal Democratic Party—the highest backing for the party in many years. [redacted]

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Comment: Some of Nakasone's improved popularity reflects positive media coverage of his tour of Southeast Asia and attendance at the Williamsburg Summit. The upswing in support for Nakasone and the Liberal Democratic Party bodes well for the government in the elections. [redacted]

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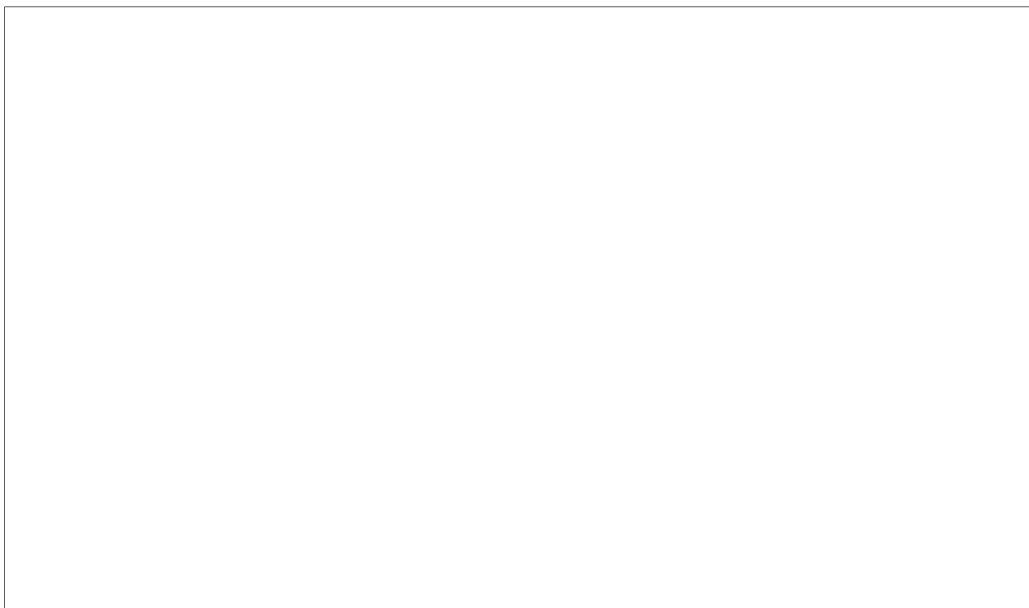
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**HONG KONG: Downturn in Economy**

The declining Hong Kong dollar has continued to weaken, despite government efforts to shore up the currency by increasing interest rates substantially. The currency is now trading at 7.5 per US dollar—a 15-percent depreciation from its peak in January. Investment capital is being taken out of the colony, and local residents are exchanging their Hong Kong dollar savings for foreign currency and gold. Moreover, fear that the hike in interest rates will choke off the colony's recovery has put Hong Kong's stock market into a tailspin.

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Comment: The severe deterioration reflects growing public apprehension about China's intentions toward the colony. A mutual interest in halting the slide is likely to encourage Beijing and London to try to break the deadlock in their talks over Hong Kong's future. If the deterioration continues, both sides probably will step up their actions to stabilize the economy.

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PORTUGAL: New Cabinet

The center-left coalition government headed by Socialist leader Soares that took office yesterday is united on continuing Portugal's pro-Western foreign policy. The coalition partners—the Socialists and the Social Democrats—have a solid parliamentary majority. []

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Comment: The new government should be able to resume base negotiations with the US by early July. There are differences in the cabinet, however, on economic policy. The two parties and independent Finance Minister Lopes accept the need for austerity, but they probably will have difficulty in agreeing on specific measures. Communist-led unions are likely to fight hard against policies that threaten to increase unemployment and reduce workers' real wages.

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CANADA: Tories To Select a New Leader

The Progressive Conservatives meet this weekend in Ottawa to designate a new party leader. Former Prime Minister Joe Clark, Quebec businessman Brian Mulroney, and a member of parliament from Newfoundland, John Crosbie, are the leading contenders. Unofficial polls of delegates show Clark with the most first-ballot votes but not enough for a sure first-round victory. Mulroney and Crosbie are second and third in the polls. []

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Comment: National elections could be held as early as next year, but the Tories could easily lose their lead over the incumbent Liberals, as shown in recent polls, by failing to unite behind a strong leader. Clark has failed to end intraparty dissension during seven years as head of the party. Mulroney has a strong personal political organization in Quebec, where the Tories are traditionally weak, but he has never held elective office. Crosbie would be the most likely compromise choice if Clark and Mulroney fail. []

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Special Analysis

UK: The Second Thatcher Government

The results of the election yesterday will increase Prime Minister Thatcher's determination to take personal command of domestic and foreign policy. Cabinet changes will provide an early indication of her intentions. A rapid shift to the right by Thatcher would risk dissension in the Conservative Party and major trouble with the unions. The Labor Party appears set for another round of internal strife, while the Social Democratic-Liberal Alliance will try to show that it has replaced Labor as the best alternative to Thatcher and her policies.

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Thatcher is likely to proceed with plans to denationalize industries and to hold down social spending in order to keep the budget deficit under control. To keep inflation down, the government has said it intends to stick to tough wage guidelines for the public sector.

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The Prime Minister has long wanted to impose greater control over the unions, and she probably will proceed with new legislation restricting their powers. Tory plans call for enforcing secret ballots on strikes and banning strikes in some key industries. Other proposed legislation would hurt the Labor Party by restricting political contributions by union members.

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Thatcher's tough line on unions is likely to be popular with most voters, but it also carries some dangers. As the economy improves, unions that accepted low wage settlements during the recession probably will try to make up lost ground. The unions also traditionally react strongly to restrictions on their powers, and leftwing union bosses may be anxious to find issues on which to rally opposition to the government.

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Foreign Policy

Major foreign policies probably will remain unchanged during the Prime Minister's second term, but the UK's position will be more likely to reflect Thatcher's own tough, nationalistic stance. Although the Prime Minister will continue to be a staunch ally of the US, she will be quick to oppose any US action viewed as infringing on British sovereignty.

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The Prime Minister will not, for example, back away from areas that could cause friction, such as competition for sales of high technology and arms. In addition, she is likely to take a tough line on more US purchases of British computers, electronics, and defense materials.

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The expense of maintaining a sizable military presence on the Falkland Islands will encourage opposition politicians and some British officials to seek ways to settle the dispute with Argentina. Nonetheless, Thatcher will continue to reject concessions on sovereignty in the near term. [REDACTED]

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Thatcher probably will take a more flexible stand on the transfer of sovereignty over Hong Kong. She will be careful, however, that any agreement with China does everything possible to maintain stability in the colony. [REDACTED]

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The British will continue to look for ways to retrench on costly overseas commitments. For example, London will continue to search for a formula that allows it to pull its troops out of Belize and will try to involve the US in the process. [REDACTED]

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In the Middle East, the UK is likely to continue its active role in the search for peace and will work to gain Arab and PLO acceptance of the US initiative. If US efforts falter, however, the British may be inclined to support a renewed EC peace initiative. The UK's relations with Oman and other countries in the region, where the British have longstanding interests, are likely to expand. [REDACTED]

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Thatcher also will continue a commitment to membership in the EC, but her defense of British interests probably will irritate her European partners. She will renew demands for a decrease in the British contribution to the EC budget and will be likely to expect major progress on this issue when the EC heads of government meet later this month. [REDACTED]

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Defense Commitments

Thatcher's tough image was especially effective on defense issues during the campaign, and she quickly succeeded in capitalizing on Labor's advocacy of unilateral nuclear disarmament. She has pledged to maintain and strengthen the UK's independent nuclear deterrent, home defense, the commitment to NATO to maintain forces in West Germany, and the British contribution to NATO's sea control efforts in the North Atlantic. [REDACTED]

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The Tories, however, were not forced to address the question of where they would find the resources to fund their defense program. Unless there is a strong economic revival, pressures to cut defense spending are likely to reemerge. [REDACTED]

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Thatcher remains committed to deployment of ground-launched cruise missiles. Deployment will proceed on schedule, barring significant progress in arms negotiations. [REDACTED]

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Provisional Figures (declared and projected)	Percent of vote	Seats	
		9 June '83	(Last Parliament)
Conservative Party	43	390	(334)
Labor Party	29	213	(239)
Alliance	26	26	(42)
Social Democrats		3	(29)
Liberals		23	(13)
Other	2	21	(20)
Total Seats		650	(635)

Final figures will not be available until late this afternoon. The counting of ballots for the 17 seats in Northern Ireland only began this morning. Reapportionment has increased the number of seats by 15.

Under the British electoral system, a party rarely receives a percentage of seats in Parliament that equals its share of the vote. The Labor Party, for instance, is overrepresented in Parliament because its votes are concentrated in the industrial cities of the north and midlands. The Social Democratic-Liberal Alliance, at the other extreme, can receive almost the same vote count but—because its support is spread more evenly around the country—takes few seats. This will once again lead the Alliance to demand the implementation of proportional representation, a demand that Prime Minister Thatcher will reject.

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The Prime Minister, however, will continue to approach the issue carefully. If protests by the peace movement should become more widespread or violent, an incident could occur that would heighten public sensitivity. [REDACTED]

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The "dual key" issue seems to have been deflated by recent statements by Thatcher and President Reagan that the UK would share any decision to use the missiles. Nevertheless, many newly elected Tories expressed concern over the issue, and pressures could arise again in coming months for even more ironclad guarantees of a British veto. [REDACTED]

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Political Outlook

Opposition spokesmen charged during the campaign that Thatcher planned to move to the right if she won a decisive victory. Before the election, a ranking Conservative Party member told US Embassy officers that he expects Foreign Secretary Pym and Home Secretary Whitelaw, both of whom are moderates, to be shifted to other jobs. Pym has made it clear that he wants to retain his post, however, and his removal could lead to an early conflict with party moderates. [REDACTED]

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Labor's disastrous showing—the party's worst in 50 years—will almost certainly renew the conflict between leftwingers and moderates. Initially, the struggle is likely to center on the succession to party leader Foot, who probably will resign soon. [REDACTED]

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As a result of the infighting, Labor will not be able to offer any coherent opposition to the Tories. At some point, union leaders may start to rethink their relationship with the party. [REDACTED]

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Supporters of the Social Democratic-Liberal Alliance will be disheartened by the disparity between their popular vote and the number of seats won. The Liberals won many more seats than the Social Democrats, however, and the latter are likely to charge that the Liberals were given too many winnable seats. Nevertheless, the Social Democrats and Liberals have grounds for longer term optimism, because Labor's poor showing and prospects point up the Alliance's claims to represent the only alternative to Thatcher. [REDACTED]

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The Social Democrats and the Liberals now face the task of holding their partnership together and producing a united leadership and policy for the years in opposition. They also have to stand ready to take advantage of further Labor splits and dissatisfaction on the part of moderate Tories with Thatcher's policies. [REDACTED]

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